



# Council Policy Manual

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## CP9.6 BUDGET VARIATIONS

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### POLICY OBJECTIVE

To define the circumstances in which a budget variation is required to be approved by the Council.

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### BACKGROUND

Section 6.8 of the Local Government Act 1995 (Act) states (*inter alia*):

**“6.8. Expenditure from municipal fund not included in annual budget**

- (1) A local government is not to incur expenditure from its municipal fund for an additional purpose except where the expenditure —
  - (a) is incurred in a financial year before the adoption of the annual budget by the local government;
  - (b) is authorised in advance by resolution\*; or
  - (c) is authorised in advance by the mayor or president in an emergency.

\* *Absolute majority required.*

- (1a) In subsection (1) —

**additional purpose** means a purpose for which no expenditure estimate is included in the local government’s annual budget.”

It is important to distinguish between “funding for an additional purpose” as defined in the Act and a variation to the budget previously approved by the Council for a particular project, function or service.

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### POLICY STATEMENT

1. A report seeking a variation to the Council’s budget is required to be prepared where:
  - i) The cost of completing a project (excluding drainage, footpaths and road resurfacing / modifications) will exceed the amount included in the Council’s adopted budget for that project by more than 10% or \$50,000 whichever is the lesser amount;
  - ii) The project relates to drainage, footpaths and road resurfacing / modifications and expenditure on an individual project exceeds the amount included in the Council’s adopted budget by more than 20% or \$50,000 whichever is the lesser, subject to total expenditure on drainage, footpaths and road resurfacing /



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- modifications being less than 10% in excess of the Council's total adopted budget for those projects;
- iii) It is proposed to change capital expenditure to operating expenditure or vice versa; or
  - iv) Where new income such as a grant for capital works is received and no estimate of that income is included in the Council's adopted budget.
2. Where expenditure against a project or line item included in the Council's adopted budget will exceed the estimated expenditure for that line item or project by \$5,000 or less, no budget variation is required.
  3. Where expenditure against an individual line item in an operating budget will exceed the amount included in the Council's adopted budget for that line item, provided the total operating expenditure for the relevant Unit will not exceed the total operating budget included in the Council's adopted budget for that Unit by more than 10% or \$50,000 whichever is the lesser, no budget variation is required.
  4. Where, in accordance with the provisions of this policy, a budget variation is required to be approved by the Council, no expenditure in excess of 10% or \$50,000 (whichever is the lesser) of the Council's adopted budget for that project or budget line item is to be authorised prior to the required budget variation being approved by the Council.
  5. Where a variation to the Council's adopted budget is required the funds required to give effect to the variation shall be sourced in the following priority:
    - i) Through a reduction in expenditure or an increase in revenue within the Unit seeking the variation.
    - ii) Through a reduction in expenditure or an increase in revenue within Directorate within which the variation is required.
    - iii) Through another area of the City's operations.
    - iv) Through a transfer from an appropriate reserve account.
  6. Where expenditure on a project or line item will result in the requirement for a budget variation to be approved by the Council, if that expenditure is not required to be committed or spent prior to the next budget review as required by clause 7 of this policy, then the variation is to be included in the next budget review for the Council's consideration.
  7. The Council's adopted budget shall be reviewed in November and March each financial year with any variations the Administration believes are required submitted to the Council for consideration and approval.



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8. Where no expenditure estimate is included in the Council's annual budget for a project or line item, in accordance with Section 6.8 of the Local Government Act 1995 (Act), that project or line item is considered to be funding for an "additional purpose" and approval of funding for that purpose is subject to the provisions of Section 6.8 of the Act.
9. Funding required for projects or line items that would constitute an "additional purpose" under Section 6.8 of the Act shall be sourced in the following priority:
  - i) Through a reduction in expenditure or an increase in revenue within the Unit seeking the funding.
  - ii) Through a reduction in expenditure or an increase in revenue within Directorate within which the funding is required.
  - iii) Through another area of the City's operations.
  - iv) Through a transfer from an appropriate reserve account.
10. Nothing in this policy prevents a report seeking a variation to the Council's adopted budget from being presented to the Council for consideration and approval where the additional expenditure does not exceed the Council's adopted budget by more than 10% or \$50,000, whichever is the lesser. Such reports may be presented where the project or line item against which the expenditure will be incurred is considered politically sensitive.

### Examples

1. Council has approved a capital project with a budget of \$700,000. Tenders are invited and the actual cost will be \$740,000. In this instance, Council approval of a budget variation is **not** required because the actual cost does not exceed the budgeted cost by more than 10% or \$50,000.
2. Council has approved a capital project with a budget of \$800,000. The actual cost of the project will be \$860,000. A budget variation **is** required because although the additional funds required do not exceed the budgeted figure by more than 10%, it exceeds the budgeted figure by more than \$50,000.
3. Council has approved a project with a budget of \$30,000 and the actual cost of the project is \$34,000. Even though the increased expenditure exceeds 10% of the budgeted project cost, a budget variation is **not** required because the additional funding required does not exceed \$5,000. (Refer to clause 2 of the Policy).



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